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## ***IASB ED/2017/4 Property, Plant and Equipment – Proceeds before Intended Use (Proposed amendments to IAS 16)***

### **Objective**

- 1 The objective of this session is to obtain EFRAG TEG and EFRAG CFSS members' views on the possible ways to move forward with the property, plant and equipment (PPE) project and the related proposed amendments as issued by the IASB.

### **Background**

- 2 In ED/2017/4 *Property, Plant and Equipment - Proceeds before Intended Use (Proposed amendments to IAS 16)*, issued by the IASB on 20 June 2017 (the 'ED'), the IASB developed proposed amendments that would prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before the asset is available for use. Consequently, an entity would recognise such sales proceeds, together with the cost of producing those items, in profit or loss applying the applicable Standards. The ED also clarified the meaning of 'testing' in paragraph 17(e) of IAS 16, i.e. when testing whether an item of PPE is functioning properly, an entity assesses the technical and physical performance of the asset, and not its financial performance.
- 3 On 10 November 2017, EFRAG responded to the IASB on the ED. In its response, EFRAG considered that the proposed amendments raised a number of substantive questions and were not convinced that these matters have been sufficiently explored in developing the ED. EFRAG also noted that the proposed amendments affected a wider range of transactions and circumstances than the issue submitted to the IFRS Interpretations Committee (IFRS IC). EFRAG therefore suggested that the IASB should consider taking on a broader project that would address the underlying principles and issues, and assessed the effects on current practices, more comprehensively. EFRAG suggested that the IASB could also consider addressing the narrower issue submitted the IFRS Interpretations Committee in the shorter term.

### **Issue**

- 4 Following the response to the ED's consultation, the IASB performed follow-up research with a number of respondents. As a result the IASB Staff provided the following three approaches in their paper to the IFRS IC at its meeting on 12 June 2018 (see paper 10-03 of this meeting):

*Approach 1 - Proceed with the ED as published largely without modification.*

- 5 This approach is not consistent with the views expressed by EFRAG on the ED.

*Approach 2 - Proceed with the ED but incorporate the following changes to address some of the main concerns raised:*

- 6 These concerns include the following:
- (a) A principle (similar to the principle in IAS 2 on joint products) regarding the identification of the costs of producing items sold and the development of additional requirements or examples on the identification and allocation of costs.
  - (b) Expand the definition of 'testing' included in the proposals by incorporating within IAS 16 some of the explanatory text in paragraph BC10 of the ED.
  - (c) Incorporate specific disclosure requirements relating to the sale of items produced before an item of PPE is available for use.
- 7 This approach partially addresses EFRAG's concern that the IASB should undertake a broader project that would address the underlying principles and issues. However, based on the IASB staff paper, it does not address all of the concerns related to the recognition of proceeds before intended use.

*Approach 3 - Proceed with additional disclosure requirements and consider alternative standard-setting approaches.*

- 8 Under this approach:
- (a) Additional disclosure requirements would be added to IAS 16 that could include the amount of sale proceeds credited against the cost of PPE in the period; and require a description of how an entity has determined the date at which PPE is available for use (if the amount of sale proceeds credited against the cost of PPE is material to the entity).
  - (b) As a second step, the IASB could then consider one of the following:
    - (i) exploring whether it might propose to amend IAS 16 to clarify the date at which PPE is available for use - for example, by considering the indicators specified in paragraph BC20 of the ED; or
    - (ii) considering the issue of sales proceeds before intended use as part of its research project on Extractive Activities.
- 9 EFRAG Secretariat considers that this approach is the one most closely aligned with the view expressed in EFRAG's comment letter on the ED. However, it does not address the original issue raised to the IFRS IC. Further, we note that the issue is wider than extractive activities and consider that the IASB should address this as a separate project rather than addressing the issue within the research project on Extractive Activities.

**Questions for EFRAG TEG and EFRAG CFSS**

- 10 What advice do EFRAG TEG and EFRAG CFSS members have on how to proceed with the PPE project and its proposed amendments? In particular, would EFRAG TEG and EFRAG CFSS suggest proceeding with any of the approaches outlined above?

**Agenda Papers**

- 11 In addition to this paper, agenda papers for this session are:
- (a) Agenda paper 10-02 – *ASAF 04 IAS 16 Proceeds before Intended Use - For background - TEG-CFSS 18-07-04;*

*IASB ED/2017/4 Property, Plant and Equipment – Proceeds before Intended Use  
(Proposed amendments to IAS 16)*

- (b) *Agenda paper 10-03 – ASAF 04A IAS 16 Proceeds before Intended Use feedback analysis - For background - TEG-CFSS 18-07-04; and*
- (c) *Agenda paper 10-04 – ASAF 04B IAS 16 Proceeds before Intended Use feedback summary - For background - TEG-CFSS 18-07-04.*